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C O N F I D E N T I A L SECTION 01 OF 02 WELLINGTON 000902

SIPDIS

STATE FOR D (FRITZ), EAP/FO (STEPHENS) AND EAP/ANP  
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SUBJECT: WHAT HONEYMOON? PM CLARK'S NEW COALITION SHOWS  
SOME STRAINS

Classified By: DCM DAVID BURNETT,  
FOR REASONS 1.4 (B) AND (D)

11. (C) SUMMARY: Less than two months into her new Government, the local press has quoted PM Clark's coalition officials as contradicting each other over foreign policy, notably whether or not New Zealand needs to repair its relations with the United States. (Foreign Minister Peters says yes, Clark and Defense Minister Goff say no.) Conflicting media signals are unusual from those under Clark's command, and reflect the unprecedented arrangement that has put opposition politician Peters nominally in charge of foreign policy. The reports come on top of a bad week for the PM that has seen her Finance Minister slammed for resisting the tax cuts recommended by the bureaucrats who work for him. But Clark is a master at management and is unlikely to lose control of her party or government any time soon. Meanwhile, the Embassy is taking seriously Peters' attempts to reach out to us, and will be looking for ways to leverage his efforts. END SUMMARY.

12. (C) Hints of trouble with Clark's new coalition began with New Zealand media reports that during his first trip to Australia as foreign minister, Peters had asked Australian Foreign Minister Downer for help in improving the US-New Zealand relationship. Peters denied asking for Downer's help, and claimed he had been misquoted by the Australian journalist who reported the story. Peters did, however, tell NZ reporters that that New Zealand should look to improve its relationship with traditional allies, including the United States. He highlighted as an opening former Ambassador Swindells' July 4 speech calling for a comprehensive discussion about the relationship. Clark promptly told the press that there is nothing in the US-NZ relationship that needs fixing.

13. (C) The story resurfaced again on the margins of the APEC meetings in Busan last week, when Defense Minister Goff reportedly told the press that Downer had asked him to explain who was speaking for New Zealand foreign policy. Peters, meanwhile, told the press he had explained his role fully to Downer. He also claimed to have asked Downer to help New Zealand in its relationship with the United States, and Downer was quoted in the media as having agreed. ("I'll definitely be putting in a good word for New Zealand during the course of this week with the Americans.") But this putative accomplishment was sidelined by Downer telling reporters that although he and Goff are good friends, he was "a bit surprised" to hear that Goff had told the NZ press about his inquiries. This admission also effectively drowned out Peters' later claims that he had had a good conversation with Secretary Rice.

14. (C) The NZ press, which has a testy relationship with Peters, promptly seized on Downer's questions to Goff as proof that the governing arrangement that leaves Peters out of Cabinet and free to criticize Labour on issues outside his portfolio is unworkable. For his part, Peters, who loathes the NZ press, has stormed out of press conferences and called the NZ Herald "treasonous" for having questioned his authority on foreign policy during the Busan meetings. (FYI: Peters also told Pol-Econ Couns earlier that the NZ press are all Marxists and will never report honestly on anything he does.)

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COMMENT  
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15. (C) It may be that tensions between Peters, Goff, and Clark are being overstated by the NZ media. For his part, after returning to New Zealand Goff disputed press coverage of his remarks, chalking the misreporting up to "bored journalists trying to justify their airfares." He denied any tension between himself and Peters, and said the media was "hounding" Peters, whom he classified as capable of handling the foreign affairs portfolio. Goff also claimed that he had told FM Downer that the Government's arrangement with Peters was akin to having his mother-in-law living nearby in her own

apartment, in that he got along with her but it was important for everyone to have his or her own space.

16. (C) We believe, however, that there is genuine tension between Peters and the rest of the Government. The coalition arrangement that leaves Peters free to criticize Labour on issues outside his portfolio is a recipe for problems, since areas such as defense, trade, and immigration are closely entwined with overall foreign policy. The grayer the areas of distinction, the greater the chance of conflict between Peters and his Cabinet colleagues -- especially Goff and PM Clark -- in the weeks and months ahead. Add to this structural tension Peters himself: as we have previously reported, he is mercurial and often difficult to get along with. National leader Don Brash recently told Pol-Econ Councs that he was not altogether sorry not to have been able to form a coalition government, because "Winston Peters really is a nutter." It will be entirely in Peters' character to push the Government on issues he cares about, and in a very public way. For his part, Goff may be positioning himself as the next Labour Party leader by attacking Peters, as the party caucus is reportedly livid that Clark made Peters Foreign Minister.

17. (C) PM Clark has been on travel, but has already begun to try to recast Peters' remarks, calling him a "moderate." She also claims that Peters is saying less on defense and trade issues than he had before joining the Government. Clark is a skilled manager, and it is unlikely that she will lose control of her Government or party any time soon over Peters' defections from the Labour line. Nevertheless, Peters' unpredictability will put even the Prime Minister's considerable spinning skills to the test. These first dust-ups are also coming at a difficult time for the PM: a Treasury report recently called on the Government to implement broad tax cuts, a policy Labour specifically rejected during the elections. The sudden death of Green Party co-leader Rod Donald has also cost Clark a pragmatic ally with both the Greens and the more leftist elements in her own party. Nor will she ever be able to sweep her Peters problem completely under the rug: National is keen to drive a wedge between Peters and the rest of the Government, and will use any chance to fan the flames. National MP (and former WTO Ambassador) Tim Groser told DCM that he, National Foreign Affairs spokesperson Murray McCully, and former diplomat John Hayes are caucusing regularly to discuss how to embarrass Peters, and through him, the Government.

18. (C) We believe that Peters is genuinely interested in improving bilateral relations with the United States, and during his introductory meeting with Ambassador McCormick last week he made clear this was a priority. (FYI: Peters purposely made sure that Ambassador McCormick was the first Ambassador he met with as Foreign Minister.) The Embassy will seek ways to leverage this interest, keeping in mind that the real reins of power on foreign policy will remain firmly vested with PM Clark and, to some extent, Minister Goff.  
McCormick